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C O N F I D E N T I A L SECTION 01 OF 02 RIYADH 001624

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DEPT OF ENERGY PASS TO MWILLIAMSON, AHEGBURG, GPERSON, AND
JHART

E.O. 12958: DECL: 08/01/2017
TAGS: EPET ENRG EINV ECON SA
SUBJECT: CHEVRON UPDATE ON CONCESSION EXTENSION, KUWAIT
REFINERY DISPUTE

REF: 2006 SECSTATE 8253

Classified By: Acting Principal Officer Robert Murphy
for reasons 1.4 (b) (c) and (d).

Summary

¶1. (C) In a July 31 meeting, Arabian Chevron Business Manager Mohammed Ayaz updated Embassy officers regarding on-going negotiations between Chevron and the Ministry of Petroleum and Mineral Resources (MinPet) for the renewal of the firm's concession in the partitioned neutral zone (PNZ) shared by Saudi Arabia and Kuwait. Chevron recently submitted its response to MinPet's counteroffer, and is awaiting feedback. Privately, Ayaz admitted to a "bad feeling" about Chevron's offer, but said Chevron continues to receive encouraging feedback from its MinPet interlocutors. Concerning the dispute with the Kuwait National Petroleum Company (KNPC) and its planned construction of a refinery in the PNZ, Ayaz told us there had been some progress in getting the SAG to put pressure on the Kuwaiti government to consider alternate sites for the proposed facility. Finally, Ayaz provided some insight into the planned Jizan refinery, telling us Chevron has been approached by several parties to participate in the project, but has declined, doubting the project's economics.

Concession Negotiation Update:
Waiting for Feedback on Second Offer

¶2. (C) In a July 31 meeting, Arabian Chevron Business Manager Mohammed Ayaz updated the Economic Counselor and Energy Attache regarding on-going negotiations between Chevron and the Ministry of Petroleum and Mineral Resources (MinPet) for the renewal of the firm's concession in the PNZ. Per ref A, Chevron initially had submitted a request to the SAG to extend its concession, due to expire in 2009, in October of 2006. Since then, MinPet has made a counteroffer. Chevron recently submitted its response to this counteroffer, and is awaiting feedback. Ayaz told us, "Chevron's offer was not final, but we've done our best." He explained that if the offer were to be substantially improved at this point, it would need to go well above the negotiating

authority of the Saudi Arabian office, likely up to Chevron CEO Reilly. (Note: Chevron CEO Reilly has already visited the KSA to underscore the seriousness with which the firm views this negotiation. End note.) Ayaz reflected that although Chevron continues to receive very positive feedback from interlocutors within the MinPet regarding wanting Chevron to stay in the PNZ, he personally "had a bad feeling" about this second offer. Ayaz still expects the concession would be competitively bid if their negotiations fail.

¶3. (C) Ayaz also indicated he had heard "unconfirmed" rumors the Japanese were interested in re-entering the KSA, and asked us to inform him if we became aware of potential Japanese interest in the PNZ. (Note: As per ref A, Japanese-owned Arabian Oil Company (AOC) AOC lost a 40-year concession in the KSA in 2000. End note.) While Chevron believes their proprietary steam technology will likely be the technological key to winning the concession renewal, Ayaz worries there could be Japanese technology which Saudi Arabia might also consider investigating for heavy crude extraction.

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Kuwait Refinery Update: SAG Finally Putting
Pressure on Kuwaitis to Re-Consider Refinery Site
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¶4. (SBU) Ayaz also provided an update on Kuwait National Petroleum Company's (KNPC) proposed 600,00 barrel per day (bpd) refinery on the site of existing and future Chevron operations in the PNZ. Chevron Arabia maintains the refinery would place at risk their ability to operate their PNZ oil concession. The refinery dispute has been in abeyance since

February, when bids for the proposed refinery came in at nearly twice the amount KNPC had budgeted, leading the firm to cancel the February bidding round. Since then, July press reports indicate KNPC set a new July 3 bidding deadline, and doubled the project budget to approximately $13.94 billion USD.

¶5. (C) Chevron remains concerned with the possible construction of the KNPC refinery, and Ayaz told us that as recently as 10 days ago, he was meeting daily with HRH Deputy Minister Prince Abdulaziz bin on the issue. However, despite the impetus given to the refinery project during the last few weeks, Ayaz seemed less concerned about the refinery than he was last fall. Ayaz stated the SAG had finally put sufficient pressure on the Kuwaiti government to have them re-consider the location of the refinery. Ayaz indicated Chevron has suggested three alternate sites for the proposed refinery, and he believes they may be finally getting serious consideration by the Kuwaiti government. While the issue is far from resolved, it appears to be progressing satisfactorily from Ayaz's perspective.

Jizan: Thanks but No Thanks

¶6. (C) Ayaz indicated that Chevron has come under pressure from various quarters to become involved in the proposed domestic refinery project at Jizan, a greenfield 400,000 bpd facility. He stated that Chevron has been approached by both its current joint venture partners and those hoping to partner with Chevron to become involved in the Jizan project. Minister Naimi had told Chevron to "take a look," as well. Ayaz was clear Chevron has no intention of doing so, citing a list of problems with the Jizan project, including the internal rate of return, pressure for an early initial public offering (IPO), and the lack of infrastructure in this under-developed region near the Yemen border. Ayaz told us that Chevron had been keenly interested in the Jubail export refinery, but had lost out on that project to Total. He seemed to imply Chevron did not regard a domestic refinery on

the Yemeni border as an interesting substitute.

Comment

¶7. (C) The Jizan refinery was originally envisioned and pitched by MinPet as a project for a local Saudi companies clamoring for access to their "own" refinery (i.e., one not dominated by Saudi Aramco). MinPet finally seems to be smacking up against the reality that local companies which have never had the opportunity to operate a refinery also do not have the technical expertise to do so, and a 400,000 bpd refinery is not the sort of facility which one drives with a learner's permit. MinPet now appears to be courting both Saudi Aramco and other international firms to partner in the Jizan project, or at the very least, play a technical consulting role. Saudi Aramco was notably included in a recently-released list of bidders for the Jizan refinery, an about-face from MinPet's fall 2006 announcement of a "private refinery" with no Aramco involvement. MinPet now appears to be on a quest to armtwist an international firm to set up shop on the Yemeni border.

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